

**Statement  
of  
Assistant Commissioner Dan Baldwin  
Office of International Trade  
U.S. Customs and Border Protection  
Department of Homeland Security  
Before the  
House Small Business Committee  
Subcommittee on Rural Development,  
Entrepreneurship and Trade  
Regarding  
“Textile Import Enforcement: Is the Playing Field Level for American Small  
Businesses?”**

**June 18, 2009**

Chairman Shuler, Ranking Member Luetkemeyer and distinguished members of the subcommittee. I am pleased to appear before you today to discuss the actions we are taking at Customs and Border Protection, CBP, to ensure that the laws governing the importation of goods into the United States, particularly the importation of textiles, are properly enforced.

As the Assistant Commissioner for the Office of International Trade in CBP, my office is responsible for formulating CBP’s policy for implementing and enforcing trade programs, and enforcing U.S. import laws.

The mission of Customs and Border Protection is to secure the United States through border enforcement actions, while also facilitating legitimate trade and travel. As a result of America’s free trade policies and our increasing efficiency in processing global trade, over 50% of the goods we buy in this country are imported. Legitimate trade is an integral part of American business and we are committed to facilitating this by simplifying and automating its trade processes.

Last year we published the CBP Trade Strategy, our public blueprint for how Customs and Border Protection will facilitate legitimate trade at our 300-plus ports of entry.

Many of our ports of entry simply cannot accommodate escalating cargo examination due to infrastructure, technology and personnel requirements. Because of these constraints, the CBP Trade Strategy recognized the need for a layered enforcement approach. This means working both “upstream”—before entry—and “downstream”—after merchandise has been entered.

Pre-entry activities include reaching out to other governments to leverage global partnerships to accomplish our common goals. Post-entry enforcement includes

conducting audits, and taking civil or criminal action against those who ignore our trade laws.

We also rely on risk analysis and targeting to identify those shipments most likely to violate our trade statutes and regulations.

As you well know, the textile industry is a key industry in the United States, generating more than 500,000 jobs that are especially vital during the global downturn.

The domestic textile industry has achieved substantial productivity gains by investing billions of dollars in new plants and equipment, and now ranks third globally in textile exports. The industry has expressed strong concerns, however, that it is not receiving the full benefits of its highly competitive productivity because of unfair trade practices by other countries.

The top supplier countries of textiles and apparel, by value, are:

<b>1. China</b>	<b>35.4%</b>
<b>2. Vietnam</b>	<b>5.9%</b>
<b>3. India</b>	<b>5.4%</b>
<b>4. Mexico</b>	<b>5.3%</b>
<b>5. Indonesia</b>	<b>4.6%</b>
<b>6. Bangladesh</b>	<b>3.9%</b>
<b>7. Pakistan</b>	<b>3.3%</b>
<b>8. Honduras</b>	<b>2.8%</b>
<b>9. Cambodia</b>	<b>2.6%</b>
<b>10. Italy</b>	<b>2.1%</b>
<b>11. Thailand</b>	<b>2.1%</b>
<b>12. Canada</b>	<b>1.7%</b>
<b>13. El Salvador</b>	<b>1.6%</b>
<b>14. Hong Kong</b>	<b>1.6%</b>

Textiles and apparel are highly complicated commodities for tariff purposes. They cover by far the greatest percentage of the Harmonized Tariff Schedule (HTS), including 23 out of the 99 chapters, 160 headings and nearly 4,000 HTS numbers. This complexity increases the enforcement challenges.

Although textile quotas ended at the beginning of 2009, under a World Trade Organization agreement, this was only one of many enforcement issues for textile imports. Other enforcement issues include country of origin fraud, illegitimate trade preference claims, misdescription and misclassification, duty evasion and gross undervaluation, as well as outright smuggling.

Origin fraud, including illegal transshipment, raises questions about supply chain security, as well as right-to-make-entry issues.

In Calendar Year 2008 there were over 68,000 textile importers—21% of the total number of all importers. Collectively they imported textiles and apparel valued over \$105 billion (5% of the total value of all imports) and paid over \$11 billion in duties (42% of the overall total collected).

Of the \$105 billion in textile imports, approximately 19% claimed a trade preference. Of the trade preference claims reviewed, CBP found over 35% were ineligible for the claimed preference. In response to these concerns, CBP maintains a robust trade enforcement program to ensure compliance with all laws and regulations governing imports.

CBP trade enforcement resources are concentrated on the most significant trade risks, which are designated as Priority Trade Issues (PTI). Because textiles (and apparel) continue to be politically and economically significant commodities, they have been identified as one of seven Priority Trade Issues.

The goal of the Textiles PTI is to ensure that textile imports, which generate more than 42% of the duties collected by CBP, fully comply with applicable laws, regulations, Free Trade Agreements, trade preference program requirements, and Intellectual Property provisions.

CBP uses a risk-based layered approach to enforce our trade laws and to ensure that appropriate revenue is collected. This includes trade pattern analysis, on-site verification, review of production records, audits, and laboratory analysis.

In CY 2008, CBP Import Specialist resources increased by approximately 13%. Historically, the number of Import Specialists assigned to textiles at CBP ports of entry has ranged from 25-30% of the total on-board Import Specialist workforce. While most absolute quotas have been eliminated, CBP personnel involved in the verification and input of quota information will continue to perform similar duties to address the tariff-rate quotas that remain in place, and the many Free Trade Agreements (FTAs) with tariff preference levels.

There are other disciplines within CBP that are critical to the enforcement of the textile trade laws. The following table provides the staffing levels for these positions.

### Textile Enforcement – Staff Level Estimates

Position Type	2003	2004	2005	2006	2007	2008
Import Specialists	242	242	263	264	285	329
International Trade Specialists	11	10	11	13	13	13
CBP Representatives Overseas	6	6	9	9	9	9
Attorneys	1	1	2	4	4	4
National Import Specialists	2	2	2	3	3	3
Auditors	25	25	26	31	31	31
Paralegals			2	3	3	3
Textile Transshipment Analysts			1	3	3	3
I.T. Programmers				1	2	1

In addition to the above personnel, CBP has highly trained scientists who work on classification issues. There are 21 scientists assigned to ensure correct classification of textile products. They have proven to be an important asset, for example, in ensuring that both China quota requirements and duty collections are accurate.

Import Specialists in CBP with specialized commodity knowledge analyze and review textile imports for possible violations, including compliance with the 5 trade preference programs and 11 Free Trade Agreements.

Trade preference programs present a significant enforcement challenge for CBP, due to complexities such as rules of origin and duty-free treatment. The United States has negotiated a number of bilateral and multilateral FTAs, and Congress has enacted legislative trade initiatives that give nations preferential access to the U.S. market.

These trade preference programs include the African Growth and Opportunity Acts I, II and III (AGOA); the Caribbean Basin Trade Partnership Act (CBTPA); the Andean Trade Promotion and Drug Eradication Act (ATPDEA); Haitian Hemispheric Opportunity through Partnership Encouragement Act (Haiti HOPE I); and the Australia, Bahrain, Chile, DR-CAFTA, Israel, Jordan, Morocco, NAFTA, Oman, Peru and Singapore FTAs .

Trade from countries benefiting from various preference programs has been increasing in accordance with the increase in negotiated trade agreements. The overall claims of preference for the textile industry are approximately **19 percent** of the total value of imports. Trade agreements have become a critical element in the overall foreign policy of the United States. Each agreement has unique qualifying rules.

CBP is continuing to prioritize the enforcement of FTAs and legislative mandates, as well as addressing instances of origin fraud and smuggling. These issues remain key concerns for the domestic textile industry. CBP plays a key role in ensuring that these unfair trade practices are identified and addressed effectively.

Given that textile products represent 42 percent of all duties collected by CBP, financial gain remains a strong incentive to circumvent these relatively high duty rates. CBP has developed an annual enforcement strategy to address fraudulent schemes and practices such as false invoicing, false marking/labeling, false claims of origin, misclassification, misdescription, undervaluation of products, and smuggling.

In FY 2008 CBP performed 11,833 textile trade exams, and 1,677 samples were tested by laboratory analysis. Of those samples tested, 43% were found to be discrepant.

In CY 2008, CBP seized \$51 million in textile products which violated the China quota restraints, a \$3 million increase in seized goods over CY 2007 seizures.

CBP personnel stationed at the ports of entry also performed reviews of goods making entry into the United States from 50 different countries by 833 importers. Of the importers reviewed, 248 were involved in a CBP enforcement action, e.g., seizure, penalty, or exclusion of merchandise.

In FY 2008 CBP completed 42 textile-related audits, resulting in recommended revenue recoveries of over \$4.7 million, and initiated another 79 audits.

During FY 2008, CBP personnel conducted nine special enforcement operations. These operations targeted the misdescription of merchandise claiming China as the country of origin, use of the commercial availability provision (short supply) in trade preference legislation, misdescription of fiberglass fabric, classification and description of sock imports; and a special targeted verification of trade preference claims.

In addition, CBP sends Textile Production Verification Teams to visit foreign factories to verify that apparel shipped to the U.S. is actually produced at these facilities, and therefore eligible for the trade preferences claimed. Sometimes we find that the facility does not exist, or lacks the capacity to produce the textile products in question. Since FY 2000 we have visited, or attempted to visit, over 4,524 factories, including 472 during the last fiscal year.

In FY 2008, CBP personnel visited 15 countries to verify production of goods that were imported into the United States. These on-site verification visits disclose major discrepancies, deter fraud, and help us target specific shipments to this country.

As a result of the noncompliance we have found in textile imports, we have taken penalty actions amounting to several tens of millions of dollars.

On January 1, 2009, quotas were eliminated for China. As a result, CBP has prepared for a major shift in enforcement focus from quota admissibility issues to revenue protection and compliance with trade preference requirements.

CBP is addressing other risk areas such as the description and valuation of imported merchandise and training issues. Additionally, we are focusing on other concerns, such as the monitoring of China textile trade by the International Trade Commission and the potential for anti-dumping and countervailing duty cases. The 5-year strategic plan will continue to address textiles as a priority trade issue, and will include action plans and risk assessments that will take into consideration changes to the risk dynamics.

In summary, Customs and Border Protection is committed to vigorous enforcement of trade laws and regulations. We recognize the vital importance of the textile industry to this country. We will continue to focus a substantial amount of our trade enforcement resources in this priority area to help protect our domestic industry and its vital role as an employer in our economy.

Mr. Chairman, Members of the Subcommittee, thank you for inviting me to appear before you today. I am certain that with your continued support, CBP will succeed in meeting the need to facilitate the ever-increasing volume of legitimate trade and travel that fuels our nation's economy. I will be happy to answer any questions you may have.

Thank you.